Vol. II, No. 7, July 1961

EFTA Bulletin

EUROPEAN FREE TRADE ASSOCIATION

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LONDON, JUNE 1961 — 4th MINISTERIAL MEETING OF THE EFTA COUNCIL

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INTEGRATION—THE NEXT STEPS

By Dr. Bruno Kreisky, Foreign Minister of Austria and Chairman of the EFTA Council.

AUSTRIA is known to belong to those countries which, some years ago, advocated the establishment of an all-European free trade area. When this great idea which was welcomed generally and particularly within the Common Market countries was enthusiastically greeted on many sides, seemed to be doomed, through no fault of our own, Austria decided to contribute to the foundation of EFTA. She saw more in EFTA than a hastily created group to represent the interests of those countries which are often misnamed the " Outer Seven ". On the contrary, she welcomed the possibility of extending, in the framework of this organization, her economic relations with some partners, particularly with those countries with which Austria's links had been less developed in the past. The value of this partnership for Austria should not be under-estimated and as trade statistics show it has already had its concrete and tangible effects.

Like her partners, Austria from the beginning considered EFTA a useful instrument to attain that goal which we all have before our eyes and which was called " the market of 300 millions " in the Geneva communiqué of the EFTA Ministers. It is self-evident that as the representative of a country with the special trading circumstances of Austria I am bound to have great interest in this goal being reached.

What are the chances at present of moving towards this goal and later reaching it ?

A solution to this problem which has been often envisaged is the association with the E.E.C. of those countries that cannot accept full membership. This has, of course, some obvious disadvantages. It will either condemn those countries that assume most of the duties but not all the rights of a full member to a second-class status or bring about a watering-down of the Rome Treaty. The latter however would seem regrettable to all those who saw in the E.E.C. an admirable instrument of European integration and of the closest rapprochement between France and Germany. But it would be even more regrettable if a stubborn insistence on institutional forms should in the end cause the exclusion of a number of countries from these integration efforts.

At their recent meeting in London the EFTA Ministers concluded that it was premature to judge whether their common objective—a single European market embracing all the EFTA countries—could be achieved by way of negotiation for membership of, or association with, the European Economic Community. It is of the utmost significance however that the EFTA Ministers agreed that if such a course should on further consideration appear possible, the members of EFTA should coordinate their actions and remain united throughout the negotiations. The London communiqué made it clear that all EFTA countries would approach any such negotiations with a readiness to undertake obligations going beyond those which they have accepted among themselves in the Stockholm Convention; they also agreed on the necessity for effective institutions to supervise the implementation of undertakings necessary to achieve a solution acceptable to all parties.

(Photo Fayer)

Dr. Bruno Kreisky, New Chairman of the EFTA Council

Dr. Bruno Kreisky was born in Vienna on January 22nd, 1911. By the time he was sixteen he joined the Organisation of Young Socialists and actively supported the Social Democratic Party. In March 1938, when Hitler's troops marched into Austria, Dr. Kreisky was arrested but succeeded in escaping to Sweden where he continued economic and law studies which he had begun in Vienna. Entering the Austrian Diplomatic Service after the war, he was appointed Under-Secretary of State for Foreign Affairs in 1953. After the General Elections of 1959, Dr. Kreisky became Foreign Minister which post he still holds. A Member of Parliament since 1956, Dr. Kreisky was elected Deputy Leader of the Austrian Socialist Party in November 1959.

Meanwhile, as the EFTA Ministers resolved in London, the European Free Trade Association, the obligations created by the Convention between the Members and the momentum towards integration within the Association, will be maintained at least until satisfactory arrangements have been worked out in negotiations to meet the various legitimate interests of all Members of EFTA, and thus enable them all to participate from the same date in an integrated European market.

I would like to stress again that Austria has a vital interest in the achievement of co-operation on a Europe-wide basis and that for Austria's part everything will be done to attain this goal. (Tr.)

EFTA STEELMEN GET TOGETHER

By a Correspondent.

THE steel industry associations of Denmark, Great Britain, Norway, Austria, Sweden and Switzerland held a meeting in Vienna on June 12th and 13th to discuss questions of common interest. It was the second meeting of this kind, the first having taken place in London towards the end of October, 1960. The President of the Association of Mines and Iron Industries of Austria, Dr. Oberegger, was elected Chairman of the Vienna meeting.

On the agenda were three subjects for discussion: the market situation in the various countries in respect of iron and steel, the possibilities of a more intensive collaboration between the iron and steel industries within EFTA, and the question of a closer co-operation with the European Coal and Steel Community over prices and tariffs. These discussions were overshadowed by the larger political problems connected with the relationship between the Seven and the Six. Thus, although the exchange of information and ideas, as well as the renewal of personal contacts between the representatives of these industries within EFTA were most valuable, no concrete decisions or resolutions could be arrived at because the relationship between the two European economic groupings—and also between various groups within EFTA itself—are at the moment still undergoing a process of evolution, and are, therefore, very fluid. Moreover, the pace and direction of future developments in connection with the creation of a larger European market at present depend so obviously on the decisions of the Governments concerned, and it seems that the majority of the representatives of the EFTA steel industries feel that they must gain a clearer appreciation of how things will develop in the future before a decision can be reached within the industry regarding the concrete steps which might have to be taken towards future European co-operation.

Larger Market Desired

In the first instance, the meeting dealt with the international market situation in respect of iron and steel. The statements of the Austrian representatives made it clear that in spite of the very favourable business trends prevailing so far, there is some anxiety over future developments. Although in 1960 the Austrian iron and steel industry was able to increase its production to a record level, there have recently been signs of slackening demand and a tendency for prices to fall in foreign markets. Since a large proportion of the entire production is being exported (for instance, more than half of all rolled iron and steel), and since in 1960 a full 45% of these exports went to countries of the European Coal and Steel Community —as against a mere 15% to EFTA countries—the representatives of the Austrian steel industry stressed their strong interest in measures which might bring nearer the creation of a larger European market.

The reports of the other delegations relating to the market situation confirmed, in the main, this picture. In this connection, the weakness of the market for flat iron and steel products was especially pointed out. In respect of high-grade steel, however, the Swedes—in contrast to the Austrians—described the price situation as satisfactory.

Removing Tariffs

In view of this market situation, the Austrian delegation raised, during the discussion of the second point on the agenda—more intensive co-operation within EFTA—the question whether it would not be advisable for EFTA to reduce and eventually abolish altogether the tariffs on steel, earlier than the tariffs levied on other commodities. They pointed out that within the E.E.C. the tariff and quota barriers for coal, iron ore and steel have already been completely abolished, which makes for a heavy discrimination against suppliers from outside the European Coal and Steel Community—that is, primarily against the corresponding industries in EFTA countries. Of course, in view of the existing pattern of exports, it would be too much to expect that such a measure would appreciably intensify the exchange of goods between the EFTA countries where iron and steel was concerned; but it could create a better bargaining position for any future negotiations with the European Coal and Steel Community.

The other delegations took note of this suggestion with interest. However, the subsequent discussion made it clear that in other EFTA countries it is considered necessary to await a clarification of the more basic problems of the relationship between the Six and the Seven. Thus, the British delegation replied that the Austrian suggestion might be taken into consideration, but there exist as yet unsolved problems of far greater importance. The Swedish and other representatives appeared to view the suggestion with a certain reserve. Some delegates stressed also that a decision on this point must be left to governments.

Introducing the discussion on the third point of the agenda, namely, closer co-operation with the European Coal and Steel Community, the Austrian delegation proposed that the steel industries within EFTA should

TARIFFS 30% DOWN

ON 1st July, 1961, Member States of EFTA reduced their tariffs on imports from other Member States of goods eligible for Area tariff treatment by a further 10 per cent of the basic duties; this brought the total reduction of duties so far under the EFTA Convention from 20 per cent to 30 per cent. The reduction does not affect, in the case of imports into Portugal, the tariffs on goods to which Annex G of the Convention applies. (These tariffs were reduced by 20 per cent on 1st July, 1960, and no further reduction is due to be made until 1st January, 1963).

The 30 per cent reduction will also be applied to imports into Member States from Finland of goods eligible for Area tariff treatment, in accordance with the EFTA-Finland Agreement. Finland will similarly reduce by 30 per cent its tariffs on imports from Member States, except in the case of goods listed in Annex I to that Agreement, on which the reduction will be 20 per cent.

Remaining quotas on imports will be enlarged in total by over $30 million (nearly twice the minimum 20 per cent increase required under the Stockholm Convention).

re-examine their relations with the European Coal and Steel Community, and explore the possibilities of achieving now, for iron and steel, the goal of a larger European market which has been laid down in the Preamble to the Stockholm Convention. They based their proposal on the fact that within the E.E.C. the situation in respect of iron and steel—in contrast to other economic sectors—is already clearly outlined. They stated, furthermore, that in view of the greatly changed competitive positions, an agreement in the steel sector between EFTA and the Six had become particularly urgent.

This proposal gave rise to a lively debate. In reply to a question, a British representative said that in the opinion of the British steel industry an accession of his country to the E.E.C. would also imply an accession to the European Coal and Steel Community. The British delegation underlined, moreover, the strong interest on the part of their industry in the achievement of a larger European market; they also gave the assurance that they would keep the steel industries in the other EFTA countries currently informed about further developments in the relations between the Six and the Seven.

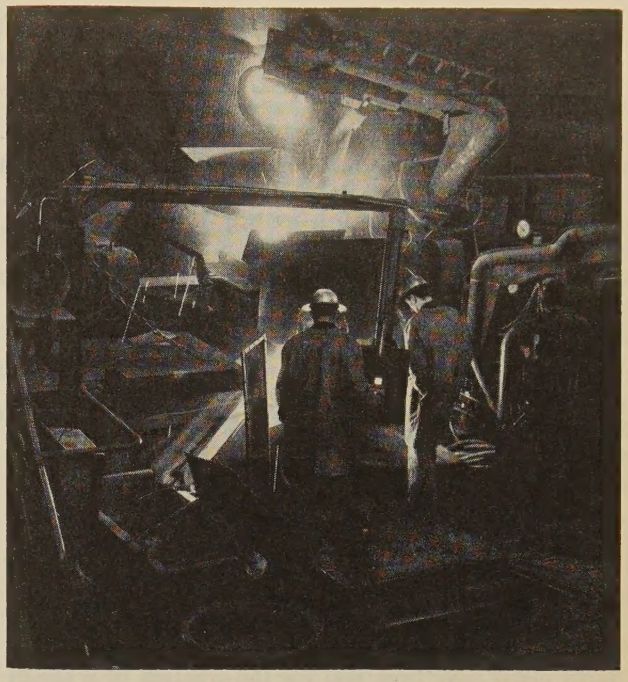
At the end of the discussions, the following statement was made public:

" The discussions of the steel industry associations of the EFTA countries, which began on Monday under the chairmanship of Director-General Bergrat h.c. Dr. mont. h.c. Dipl. Ing. Oberegger, were concluded today (June 13th). Following a survey of the current market situation presented by the Austrian representatives, the representatives of the steel industries of Denmark, Great Britain, Norway, Sweden and Switzerland reported on the situation in their respective countries.

" In particular, the question as to how the steel industries within EFTA could closely collaborate in various fields was thoroughly discussed. Another point on the agenda which engaged the attention of the participants in the conference was the question of the attitude of the steel industries of the EFTA countries towards the European Coal and Steel Community. The discussion revealed the unanimous opinion that the creation of a larger economic area would be in the interest of the steel industries within EFTA as well, and that in principle, therefore, the possibilities of a closer relationship with the European Coal and Steel Community should be investigated.

" It was resolved that, in order to further this investigation, the steel industries of the EFTA countries should exchange views on this question, and that to this end a small working committee should be constituted. This working committee should study the significance of the various stipulations of the Treaty underlying the European Coal and Steel Community with regard to the steel industries of the EFTA countries, and should thereupon report on the result of these studies to the plenary conference which, at the invitation of the Swedish delegation, will take place in Stockholm."

It is understood that the projected Stockholm conference will take place in October.



In an Austrian steel mill (Photo Schœller-Bleckmann)

Patterns of Production and Trade

MOTOR CARS

DURING the 1950's private motoring clearly moved within the reach of millions of Europeans for the first time. In the seven countries which signed the Stockholm Convention and the Six of the European Economic Community the average proportion of cars to people rose dramatically from one car for forty inhabitants in 1950 to one for fourteen in 1959. No European country can yet approach the United States' ratio of one car to every three persons; indeed quite apart from economic considerations, differences in geographic circumstances may well prevent this figure from being equalled in Europe, at any rate within the foreseeable future. In Sweden, which most nearly approaches it, there was one car for every seven inhabitants in 1959; some of the other countries were a long way below this.

Persons per car in European countries

	1950	*1959*
Austria	136	21
Denmark	36	13
Norway	50	19
Portugal	133	63 (est)
Sweden	28	7
Switzerland	32	12
United Kingdom	21	10
EFTA average	**28**	**12**
Belgium	35	13
Luxembourg	30	10
France	27	9
West Germany	78	15
Italy	137	30
Netherlands	72	25
E.E.C. average	**54**	**15**

MAIN EUROPEAN MOTOR CAR INDUSTRIES

Production and Trade, 1960

	EFTA		E.E.C.			
	Sweden	U.K.	France	West Germany	Italy	Total
Production '000 units	108	1,353	1,175	1,817	596	5,049
% of total production	2%	27%	23%	36%	12%	100%
Exports '000 units	49	570	492	865	198	2,174
% of total exports	2%	26%	23%	40%	9%	100%
% of production exported	45%	42%	42%	48%	33%	43%

Of the countries listed above only four, the United Kingdom, France, West Germany and Italy, are large manufacturers of motor cars. Sweden produces about a third of its own needs and is also a successful exporter, although on a relatively small scale. Austria and the Netherlands both have small industries and long-term plans have been laid for the creation of a motor car industry in Portugal. Of all these industries the German is the largest if production is measured in terms of the number of vehicles produced; and the British industry is second. This is a change from the position after the war from which the U.K. industry recovered more quickly than its rivals. In 1950 British manufacturers produced almost as many cars as those of France, West Germany and Italy combined, and they exported three quarters of all they produced. In 1956 the West German industry surpassed the British for the first time, both in units produced and exported. It has since consolidated its lead.

The economies arising from large-scale production working under the pressure of competition have steadily reduced the number of firms supplying the mass-market within each of the national industries. In Italy one firm, Fiat, is now responsible for about ninety per cent of the total output. In the other countries the trend has not gone so far but in France four big groups (Renault, Citroën-Panhard, Simca and Peugeot) account for about ninety per cent of the output. In both West Germany and Britain five groups (Volkswagen, Opel, Ford, Daimler-Benz-DKW, and Borgward in Germany, and BMC, Ford, Vauxhall, Rootes and Standard-Triumph International in Britain) hold a similar share. The remainder of each national industry is made up of firms producing luxury and specialist cars. That this process of concentration is not yet over is shown by the current proposal in Britain to merge Standard-Triumph with Leyland Motor (producers of heavy commercial vehicles) and the difficulties being experienced in Germany by BMW and the Borgward group.

Heavy Protection

The industries in all four of these countries grew up between the two world wars behind considerable tariff barriers; and for considerable periods since the last war they have each of them been protected by tariffs of thirty per cent. or more. In the late fifties the German tariff was reduced unilaterally from this level; it now stands at 16.9 per cent.—20.7 per cent. for imports from outside the E.E.C. The British tariff, introduced originally as an economy measure in the first world war, was reduced from $33^1/_3$ per cent. to 30 per cent. in the GATT negotiations in 1956; purchase tax of fifty per cent is also charged on the wholesale value inclusive of import duty. The French duty was thirty per cent. and additional protection to the home industry was effectively provided by an 'added value' tax also charged on the landed value inclusive of duty. Moreover in addition to tariffs all the countries imposed quantitative restrictions on imports. However in February, 1954, West Germany liberalised imports from other O.E.E.C. countries; the United Kingdom did the same in November, 1959, and France in January, 1960. Italy still retains quotas although she is under pressure in GATT to remove them as they are difficult to justify on balance of payments grounds.

Countries which do not themselves manufacture cars also impose tariffs on car imports. Norway and Switzerland, for instance, which had tariffs of thirty per cent. and over twenty per cent. respectively, do this primarily for revenue reasons. Others without industries of their own use them to stimulate local car assembly industries. The Benelux customs union, for instance, imposed a tariff differential of about fifteen per cent. in favour of cars imported c.k.d. (completely knocked down), and Denmark one of about twelve per cent. Quantitative restriction has also played its part here; the Belgian car assembly industry, which is the biggest in Europe, was also protected by a ban on the import of more than 500 assembled cars by any firm in any one year into Belgium.

The European trade in motor cars has, in the past, as might have been expected, flowed mainly from producing to non-producing countries; and since Britain sent a high proportion of her output outside Europe, the main flow was from producing countries now in E.E.C. to non-producers now in EFTA. West Germany was much the largest participant in this trade. The three big E.E.C. producing countries also supplied the Benelux market; between them they accounted for some seventy-five per cent. of all Benelux imports (both of c.k.d. and fully assembled cars). Finally, in addition to trade between producers and non-

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Fourth Meeting of EFTA's Ministerial Council

THE EFTA Council held its fourth Meeting at Ministerial level at Lancaster House in London on Tuesday, 27th and Wednesday, 28th June. Following the adoption of the agenda the EFTA Ministers approved a Report by the Secretary-General on the activities of the Association since the last Ministerial meeting on 14th-16th February in Geneva; a summary of this Report appears below. The Chairman of the Council, Mr. Reginald Maudling, reported on the first meeting of the EFTA Consultative Committee in London on 9th-10th May, and there was a preliminary discussion of the time-table of further tariff reductions within EFTA.

Relations between the Six and the Seven were discussed by Ministers at a restricted session on Tuesday afternoon and later during a working dinner given by the Chairman at Lancaster House. The text of the communiqué, dealing largely with Six —Seven relations, was drawn up the following morning. In the final session, on Wednesday afternoon, there was further discussion of the time-table for tariff reductions before the meeting ended at 4.30 p.m. The release of the communiqué was followed at 6.00 p.m. by a press conference taken by the Chairman of the Council who was accompanied by six other Ministers.

The Finnish Ambassador was received by the EFTA Ministers on Wednesday morning and a meeting of the Joint Council established under the Finland-EFTA Agreement of Association was held at Lancaster House on Thursday morning, 29th June.

SUMMARY OF THE SECRETARY-GENERAL'S PROGRESS REPORT

THE period since the last Ministerial meeting in Geneva on 14th-16th February has been a particularly active one. Discussions on the question of associating Finland with EFTA led to the signature of an agreement on 27th March, and there have been numerous discussions on the subject of economic integration in Europe. Acceleration of the timetable for tariff reductions has been further studied and preparations have been made for the annual review of trade in agriculture and fish products. The budget for 1961-62 has been established, and a draft Annual Report covering the period up to 30th June has been prepared. It deals with the purposes of EFTA, the operation of EFTA and the main economic developments.

Operation of EFTA

During the period covered by the report the Council has met twelve times, including its fourth Meeting held at Ministerial level in Geneva from 14th-16th February, 1961. The Council has so far taken thirty-nine formal Decisions of which eight were taken since 16th February.

The Customs Committee and the Committee of Trade Experts met twice during the period, and the Budget Committee once. The Consultative Committee met for the first time in May, 1961.

Trade and Customs Questions

Following the fourth meeting of the Council from 14th to 16th February, 1961, studies have been put in hand of the possibility of accelerating further the Convention timetable.

At the same time work has begun in preparation for the annual review of trade in agricultural products and the examination of trade in fishery products under Articles 25 and 28 of the Convention. In the agricultural sector, questionnaires have been sent to Member States seeking statistical data illustrating the development of agricultural trade, and Member States have also been asked to submit memoranda as to the steps taken or contemplated to facilitate the expansion of trade in agriculture as provided for in paragraph 2 of Article 22.

The statistical information received in reply to these questionnaires will also serve, together with the material furnished by Member States to the O.E.E.C., as a basis on which the Council will be able to establish rules for the gradual abolition of subsidised agriculture exports detrimental to other Member States as required under Article 24.

A statistical questionnaire has been sent to Member States seeking information on trade, production and consumption in respect of fishery products and Member States have been asked to submit memoranda on the possibilities for increasing this trade and on the obstacles which hamper such an increase.

The annual review of global quotas took place from 30th May to 2nd June. In its report the Working Party noted that several Member States had found it possible to liberalise a further proportion of their imports, and to increase their quotas by a higher percentage rate than the minimum laid down in Article 10.

External Relations and Legal Questions

An Agreement creating an association between the Member States of EFTA and Finland was signed on 27th March, 1961. *

The Agreement was transmitted to the GATT in April, 1961. At the 18th Session of the GATT, the U.S. delegate as well as the delegates of other Contracting Parties expressed their Governments' support of the EFTA/Finland Agreement, although they wished to study in more detail the various provisions of the Agreement.

The question of European economic integration has been discussed among Heads of Delegations in Geneva, on several occasions joined by senior officials from capitals. The problems of individual Member States have been studied with a view to arriving at a common approach to the integration question.

The Convention will apply to Greenland from 1st July, 1961. The Danish Government has made a declaration to this effect to the Government of Sweden in accordance with paragraphs 2 and 8 of Article 43 of the Convention.

The first meeting of the Consultative Committee took place in London on 9th-10th May, 1961. Mr. Reginald

(Continued on page 9)

* The Association Agreement entered into force on 26th June, 1961. See p. 9.)

Communiqué

THE Council of the European Free Trade Association met at Ministerial level in London from 27th to 28th June, 1961, under the chairmanship of the President of the Board of Trade, the Rt. Hon. Reginald Maudling.

The aim of the European Free Trade Association has been, from the outset, not only to create a free market between its Members, but ultimately also to achieve the economic integration of Europe as a whole, in the form of a single European market comprising 300 million consumers, following liberal policies towards the outside world. This purpose is stated in the Stockholm Convention and has been re-affirmed at every Ministerial Meeting since July, 1959. Ministers agreed that a generally increased awareness of the dangers of the present split in Europe has led to signs of willingness to make a new effort to bring to an end the division which, during recent years, has become an obstacle to European economic co-operation. An ending of this division would enable the European countries to give their full attention to the serious problems of economic relations between Europe and the rest of the world, and in particular the relationship between Western Europe as an industrialised region, and the developing countries of other Continents. A new effort to bring to an end this European division will necessitate a readiness to make some modification of policy on all sides, but it must respect the basic political positions not only of the several States of Europe, but also of the European Economic Community.

Experience gained in recent years has provided a basis for a re-examination of the problems of European integration. This re-examination has shown that while some EFTA countries could not accept obligations of a political nature, all members of EFTA are willing to undertake, in order to achieve an integrated European market, obligations which go beyond those which they have accepted among themselves in the Stockholm Convention.

Ministers agreed that the aim of any solution must be to promote unity and solidarity in Europe; to strengthen the European economy and to build an integrated market upon solid and permanent foundations. To this end, Ministers agreed that there must be effective institutions to supervise the implementation of undertakings necessary to achieve a solution acceptable to all parties.

Ministers considered whether their common objective —a single European market embracing all the Members of EFTA—could be achieved by way of negotiation for membership of, or association with the European Economic Community. They concluded that it was premature to judge whether this was possible or was likely to be successful; they decided to re-examine the question at their next meeting.

Ministers agreed that if such a course should then appear possible, the Members of EFTA should co-ordinate their actions and remain united throughout the negotiations. Ministers resolved that the European Free Trade Association, the obligations created by the Convention between the Members, and the momentum towards integration within the Association, would be maintained

MINISTERIAL MEETIN

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The EFTA M

at least until satisfactory arrangements have been worked out in negotiations to meet the various legitimate interests of all Members of EFTA, and thus enable them all to participate from the same date in an integrated European market. They agreed that a partial solution which created new economic division within Western Europe could not in any circumstances be regarded as satisfactory.

* * *

Ministers recalled their discussion at the Geneva Meeting of the Council from 14th to 16th February, 1961, and their decision to advance the date for the next ten per cent reduction of import duties from 1st January, 1962 to 1st July, 1961. They agreed that there would be advantage in a further acceleration of the timetable for the dismantling of tariff protection within EFTA,

THE EFTA COUNCIL

June 1961

in session. (Photo Keystone)

and decided to consider the matter further at their next meeting.

* * *

During the course of their meeting the EFTA Ministers received the Finnish Ambassador in London, His Excellency Leo Tuominen, representing the Finnish Government. The Chairman of the EFTA Council expressed the pleasure of all the EFTA Ministers at the recent entry into force of the Association Agreement with Finland, and the prospect of fruitful economic co-operation which it held out.

The Finnish Ambassador declared in reply that his Government felt great satisfaction at the link now created between Finland and the EFTA countries by the new Agreement which was of the utmost importance for his country.

Summary of the Secretary-General's Progress Report

(Continued from page 7)

Maudling, President of the Board of Trade, presided in his capacity as Chairman of the EFTA Council. It was attended by 32 representatives mainly of industry and trade unions in all Member States.

Information Activities

The main development in the period under review was the establishment of the EFTA Information Office in Washington, following the appointment in January, 1961, of Mr. A. Buraas and Mrs. J. Buraas.

Five issues of the EFTA Bulletin have been published during the first half of 1961, in English, French and German versions. The total circulation has grown to 35,500 copies, of which 8,500 are being distributed in the U.S.A. The English version accounts for 20,000 copies of the total, the French for 8,500 and the German for 7,000 copies.

Administration

The revised Manning Table adopted in October by the Council provided for a total staff of forty-nine (including three in Washington) comprising twenty-three in the Professional Category and twenty-six in the General Service Category.

FINLAND—EFTA ASSOCIATION: FIRST MEETING OF THE JOINT COUNCIL

ON 26th June, 1961, the Agreement creating an Association between the Member States of EFTA and Finland entered into force.

Taking advantage of the presence in London of the Permanent Delegates, the Joint Council held its first meeting on 29th June, at Lancaster House, under the chairmanship of Sir Edgar Cohen, Head of the United Kingdom Delegation. At this meeting the Joint Council took the necessary measures in order to ensure uniformity in commercial arrangements between the eight countries.

The Joint Council elected as Chairman from 1st July, Mr. E. Treu, Head of the Austrian Delegation, and as Vice-Chairman, Mr. N. V. Skak-Nielsen, Head of the Danish Delegation.

First Meeting of Joint Council, London: Mr. Olli Kaila (left) and Mr. Paul Gustafsson, the Finnish Delegates.

MOTOR CARS

(Continued from page 6)

producers, there was a certain amount between the producing countries themselves. But in 1958, which, since it was the year preceding the first tariff cuts under the Treaty of Rome, may be taken as a base year, trade in cars between the five largest car manufacturing countries in Europe amounted in unit terms to only twenty per cent. of the total intra-European trade.

Future Expansion

What are the likely effects of the emergence of the two European trade groups on this pattern of trade and manufacture? One likely result is that France, Italy and West Germany will buy and sell many more cars to and from one another because of the lowering of trade restrictions between them behind the Common External Tariff. There are signs of such a development already. In 1959 West German imports of cars plus cars assembled in West Germany by Fiat reached 150,000 units and accounted for eighteen per cent. of the country's apparent consumption. Sales of the Fiat '500' and '600' and of the Renault Dauphine were especially high; but it should be noticed that the long waiting list for the Volkswagen was certainly partly responsible for this since imports decreased in 1960 when Volkswagen output rose. However, to set against this decline in 1960 there was a rise in German imports of medium sized cars, led by Citroën. Imports into France and Italy have risen less rapidly. Both countries had much higher tariffs than West Germany when the Common Market came into force and despite the subsequent internal tariff reductions, their tariff levels to other members of the group are still relatively high (18 per cent. for France and 24.5—31.5 per cent. for Italy). Moreover Italian imports are still subject to quota. However all these restrictions will ultimately disappear (the E.E.C. countries have agreed to remove quota restrictions on trade in industrial items by the beginning of 1962). As an indication of the likely trend of events it should be noted that many European car firms are already laying the groundwork for future expansion by building up servicing facilities in other Common Market countries in anticipation of the full tariff reductions.

Other possible effects of the removal of Common Market internal trade barriers should be noted. One is that the Benelux car assembly industry may well be put in jeopardy. With the ending of the quota system there seems to be no reason why E.E.C. manufacturers should not prefer to despatch complete cars to the Benelux countries; at present however the signs point both ways for while Simca and Fiat have announced that they will not continue to assemble cars in Benelux, Citroën and Renault are expanding their plants there; in addition Standard-Triumph International has opened an assembly plant at Malines. A second effect may well be to increase the competition and pressure between marginal firms within the E.E.C., some of whom may be forced out of the market. This increase in efficiency is one of the main economic benefits expected from the establishment of a customs union.

The Common External Tariff of the E.E.C. provides a preference over non-members of 29 per cent. But EFTA manufacturers are in no danger of suffering the ill-effect of a loss of markets, since their supplies of cars to the E.E.C. countries were not very great when the Common Market was established. Moreover certain British manufacturers are already attempting to circumvent the effects of the tariff. The venture of Standard-Triumph International at Malines has already been mentioned, and recently the British Motor Corporation have licensed the assembly of their A 40 by Innocenti in Milan.

EFTA Markets

EFTA manufacturers then may not lose a great deal through the Common Market tariff wall against them. What are their chances of winning new markets through discrimination in their favour within the EFTA group itself? There will certainly be some expansion of intra-EFTA trade. There may be more Swedish sales in Britain for instance. The Swedish manufacturers, Volvo and Saab, have already made arrangements to take advantage of the tariff preference. Volvo's P1800 sports car is to be manufactured in Britain by the firm of Jensen; 75 per cent. of the components will be British and the car will therefore qualify for preferential treatment in some Commonwealth markets.

On the other hand it is difficult to forecast any great expansion of British and Swedish car sales in other EFTA countries to replace cars from E.E.C. The West German industry is firmly entrenched in those markets of the EFTA countries and is not likely to be easily displaced even where it finds itself at a tariff disadvantage. In fact, it is only in each other's country and in Austria that the British and Swedish car industries seem certain to enjoy the full effects of an EFTA tariff preference. Norway has not reduced her duty on account of its revenue character and Switzerland has also notified EFTA that her duty contains a revenue element; though in fact she has carried out the first twenty per cent cut. Portugal has also introduced the cuts but she too may later seek to retain protection in furtherance of her decision to develop an industry of her own. Finally Denmark, while reducing her tariff on imports of assembled cars from other EFTA countries, still allows the entry of vehicles c.k.d. entirely without duty from any country, to the disadvantage of the British and Swedish suppliers.

There has not yet however been time to appraise the effects on the car trade of the recent revaluation of the mark. A rise in the price of German cars must to some extent enhance the ability of EFTA manufacturers to compete with their principal rival in the EFTA market.

Electrical equipment will form the subject of the next article in this series of independent studies of the present patterns of production and trade for a number of key commodities. The articles in this series include an assessment of future prospects, and consider the implications of European trade developments.

THE STOCKHOLM CONVENTION EXAMINED

Part 5 — Deflection of Trade

TO a significant degree the EFTA origin rules represent the acceptance of a calculated risk. They were deliberately made as liberal as possible and it was recognised by the Member States that, as a consequence of this liberality, the reduction and elimination of duties within EFTA could lead to changes in the direction of trade in such a way as to cause injury to an industry in a Member State. Such changes, referred to as deflections of trade, are defined with some precision in paragraph 1 of Article 5. In effect, a deflection of trade amounts to the undermining of the protective tariff of one Member State by the redirection of imports from third countries through another Member State with a lower tariff, whence the goods are passed on at the lower EFTA rate of duty.

In practice deflections of this kind are not likely to be significant unless the difference between the tariffs of the Member States concerned is wide enough to offset increased transport and other incidental costs and until the EFTA rates of duty have been reduced to the point where the redirection of trade becomes worth-while.

If a deflection of trade, as defined in Article 5, occurs and if it is of such magnitude as to cause injury to production in a Member State, the Council is required to deal with the situation in accordance with paragraphs 2 and 3 of that Article. Under paragraph 2 the Council has to keep the situation under review, whether or not a complaint has been made, so as to deal with deflections by revising the origin rules; under paragraph 3, a Member State may refer a particularly urgent case to the Council, which may authorise that Member State to take safeguarding measures of an interim character until a more permanent solution is worked out of the kind envisaged in paragraph 2.

Article 5, therefore, is a safety-valve; it enables Member States to deal with the effects which could flow from the liberality of the origin rules in conjunction with the retention by the Member States of the right to determine for themselves what duties they should apply to imports from non-Members. In fact no effects of this kind have yet been reported to the Council and it has never been supposed that much use would need to be made of the safety-valve in practice. Like most safety-valves, its importance lies in its existence rather than in its frequent use.

It is worth noting, however, that these safety-valve provisions are not the only remedy in the hands of the Member States to deal with untoward changes in the pattern of trade. Other remedies exist, such as the levelling-down of the import duties of the high-tariff countries, possibly combined with measures designed to reduce the need of particular industries for high levels of tariff protection. In this respect it can be argued that a continued high level of protection against competition from third countries is rather pointless if protection against competition from EFTA industries must soon disappear; if an industry can survive competition from its EFTA competitors without the protection of tariffs, then it ought to be able to meet fair competition from any other country. It is on this consideration that is based the claim that a free trade area, by its very nature, will tend in the long term to generate pressures for reductions in external as well as in internal tariffs, resulting in a gradual downward harmonisation of external tariffs.

There have already been signs that this downward harmonisation is beginning, not as a concerted action of the Member States but as a direct consequence of the situations in which particular Member States have sometimes found themselves. As yet the tariff changes which have been made have been few and isolated, but they have been uniformly downward.

Notification and Reference to the Council

The provision in Article 5 of which use has so far been made by the Member States, and that fairly extensively, is the requirement in paragraph 4 that a Member State which intends to change its external tariff, either upwards or downwards, shall inform the Council at least a month in advance. This requirement is intended to give the other Member States a chance to say whether they think the intended change would be likely to have deleterious effects for one of their industries by giving rise to a deflection of trade. A Member State which is considering a tariff change is required, under paragraph 5, to have due regard to the desirability of avoiding the creation of deflections of trade. If, despite representations from another Member State, the Member State which intends to change its external tariff feels that it cannot but carry out its intention (for whatever cogent reasons it may have), then the Member State which considers that its industry is likely to be impaired may bring the matter to the notice of the Council under the consultation and complaints procedure in Article 31. Here again,

(Continued on page 12)

Studies of the Stockholm Convention

This is the fifth of a series of studies written by an official in a personal capacity. The purpose of this series is not only to clarify for the general reader some of the more complicated and technical aspects of the Convention, but also to indicate the basic ideas which, in the author's view, underlie its various provisions.

The next article, to be published in the September isssue, will deal with revenue duties and internal taxation. These articles will be reprinted later in pamphlet form.

EFTA TRADE UNIONISTS AGREE ON FUTURE COOPERATION

JUST before the first meeting of the EFTA Consultative Committee in London on 9th May, the representatives of the EFTA trade unions on the Committee had a preliminary discussion at the Headquarters of the Trade Union Congress. Since there was relatively little time available on this occasion, it was agreed that there should be another discussion between the trade union representatives on the Consultative Committee, to allow full consideration of some unresolved questions. The representatives of the Austrian Trade Union Federation were asked to arrange for the meeting, which it was agreed to hold in Austria.

This meeting took place in Salzburg on 22nd and 23rd June. Leading officials from the trade union federations of EFTA countries were present; they included Mr. Frank Cousins, General Secretary of the Transport and General Workers Union, and Mr. Henry Douglass, of the Iron and Steel Trades Confederation, from the United Kingdom, and from Austria the Vice-President and Secretary of the Austrian Trade Union Federation, Mr. Anton Benya and Mr. Alfred Stroer. The importance which the trade unions of the EFTA countries attach to the problem of European economic integration was reflected in the standing of those taking part in the discussions.

For some time now studies have been made of particular aspects of European economic integration by some trade union federations, and these studies provided the first subject matter for discussion. One of the questions dealt with was social harmonisation. Under the second item on the agenda, there was a thoroughgoing examination of the present position regarding European economic integration, the subject being introduced by Dr. Otto Wanke of the Austrian Federal Chamber of Labour. This was followed by a critical appraisal of the first meeting of the EFTA Consultative Committee. Lastly, after Mr. Douglass had presented proposals for future cooperation between trade unions over European economic integration, it was decided that this cooperation should be extended still further in future.

THE STOCKHOLM CONVENTION EXAMINED

(Continued from page 11)

however, although intended tariff changes have been notified to the Council with some frequency, no Member State has ever found it necessary to refer a case of consequential injury to the Council for consideration.

Paragraph 6 of Article 5 is an interesting refinement. It provides that if, in any complaint made to the Council in accordance with Article 31, reference is made to differences in the rates of duty applied by two or more Member States to a product imported from a non-member country, this difference shall only be taken into account if the Council finds, by majority vote, that there is a deflection of trade. The reason for this is that differences between the duties applied by Member States to the same product cannot in themselves be regarded as a matter for complaint in a free trade area, since each Member State is free to determine what duties it will apply to imports from third countries; it is only when the difference in duties leads to a deflection of trade such as "causes or would cause serious injury", as defined in paragraph 1 (c), that ground for complaint can arise. On the other hand, to safeguard the interests of the complaining country, the Council can find by majority vote that the difference in duties is a relevant consideration and should be taken into account; the country complained against cannot block such a finding.

Taking the Article as a whole, it is clear that a Member State would have to prove a complaint according to a stringent definition, and paragraph 3 strictly limits the length of time for which a Member State can act unilaterally before proving its complaint. The Association is therefore safeguarded against excessive use of the safety-valve. On the other hand, where a clear case exists, a Member State would have little difficulty in proving it and is entitled both to take interim measures and to get a quick decision on a more permanent solution; this, together with the provisions for majority voting, goes a long way to safeguard the individual Member State. This, then, is another example of the careful balance between collective and individual interests which characterises the Convention. The balance has not yet been put to the test, and it remains to be seen whether it will work satisfactorily in the event. If not, a further safeguard exists in paragraph 7, which requires the Council to review the working of Article 5 from time to time and empowers it to make any changes which are found to be necessary. Any Decision amending this Article must be taken by unanimous vote (since it affects Member States' obligations), but this does not entail the use of the more complicated procedure of Article 44.

Assistant Secretary-General Appointed

The Council of the European Free Trade Association has approved the appointment of Mr. Charles Müller as Assistant Secretary-General.

Mr. Müller has up to now been Head of the General and Legal Department.

TRENDS IN EFTA'S FOREIGN TRADE

Analysis of First Quarter, 1961.

THE expansion of trade within EFTA, which was already clearly observable in the past year, continued during the first quarter of 1961. All member States, with the sole exception of Denmark, reported a marked growth in comparison with the first quarter of 1960, with exports rising in the average by more than 8%. These increases, however, vary considerably: while exports showed a strong upward turn in Portugal, Austria, Sweden and Switzerland, U.K. exports to the rest of EFTA increased at a slower rate (see table 2). In spite of the favourable development of foreign trade—and this goes for the whole of Western Europe—the factors making for expansion in foreign trade have become perceptibly weaker. Although exports and imports are still rising, the rates of growth show a tendency to fall. While intra-EFTA exports rose in the first half of 1960 by 17.4%, the rate of growth during the second half of 1960 was only 13.1%, and it fell during the first quarter of this year to 8.6%. Similary, as regards exports to the EEC, the United States and the world as a whole, it is apparent that the rates of growth are declining. This development reflects, up to a point, the slackening tendencies in industrial production. There, too, the slowing down of the expansionary trend cannot yet be fully gauged. However, it must be pointed out that only foreign demand has weakened, while internal demand remains stable. Thus, the tendencies prevailing in the export markets and those in the home markets are not identical.

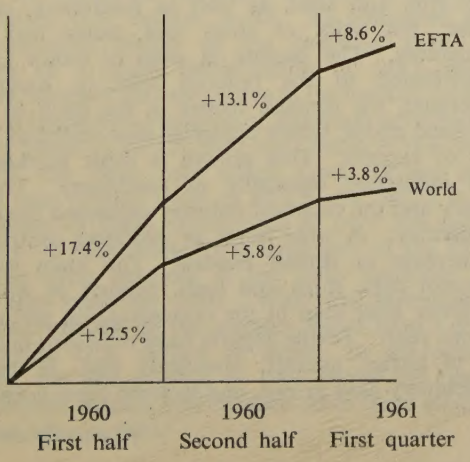
EFTA RATES OF GROWTH (EXPORTS)

(percentage increase or decrease over the corresponding period of the previous year)

	EFTA	World	E.E.C.	U.S.A.
1960, 1st half	+17.4%	+12.5%	+14.7%	+0.9%
1960, 2nd half	+13.1%	+5.8%	+9.9%	—18.2%
1961, 1st qtr	+8.6%	+3.8%	+8.3%	—28.0%

This table makes it clear that trade within EFTA has developed favourably. In all the three periods, its rates of growth are higher than those of EFTA trade with the world as a whole. It can therefore be justly claimed that the EFTA Convention has had a favourable effect on the trade of the member States of the Association.

EFTA RATES OF GROWTH (EXPORTS)



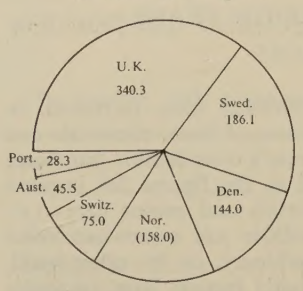
While exports to the United States have remained stagnant, imports, although still increasing, no longer reach the extremely high rates of growth of 1960. This development in American business is due to a considerable reduction in exports of motor cars, and also of steel and non-ferrous metals.

The intra-EFTA exports amounted in the first quarter of 1961 to 921.2 million U.S. dollars, as compared with 848.5 million U.S. dollars during the first three months of the previous year, an increase of 8.6%. Great Britain, with its exports amounting to approximately 300 million U.S. dollars, is undoubtedly in the lead, if considered in absolute terms; but the highest rates of growth were achieved by Portugal with +36.1% and Austria with +21.3%. On the import side, again, Great Britain shows the highest absolute values; but the highest rates of growth were achieved by Portugal (+46.6%) and Switzerland (+23.4%).

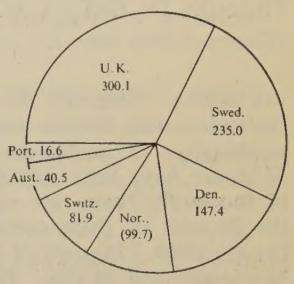
INTRA-EFTA TRADE IN THE FIRST QUARTER OF 1961

(in millions of U.S. dollars)

Intra-EFTA Imports



Intra-EFTA Exports



Denmark, Switzerland and, in particular, Sweden have favourable balances in trade with the other member States of EFTA, while the remaining four countries buy more from their EFTA partners than they sell to them.

Changes in Imports

The total imports of EFTA rose during the first quarter of 1961 to the level of 5,958.0 million U.S. dollars: that is about 6% more than imports during the corresponding period of the previous year. Since investment goods, i.e. machinery and transport equipment, constitute a large proportion of these imports, it is safe to assume that within the near future the productive equipment of the EFTA industries will expand considerably and the volume of production will grow correspondingly.

In Austria, the proportion of finished goods within total imports has risen considerably, and now amounts to almost one-half of all imports. Correspondingly, the proportion of raw materials and foodstuff imports is

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EFTA INFORMATION OFFICE IN USA

In the United States enquiries about EFTA should be addressed to: European Free Trade Association; Washington Information Office, Suite 622, Sheraton Building, 711 Fourteenth St., N.W., Washington 5, D.C.; Telephone: EXecutive 3-6015.

FORMAL DECISIONS OF THE COUNCIL

Decisions No. 12 and 13 : Amendments to the Staff Regulations of the Secretariat and Emoluments of the Assistant Secretary General.

Adopted at the 17th meeting of the Council on 14th June 1961 in accordance with Article 34 of the Convention.

The first of these two decisions has been necessary in order to provide in the Staff Regulations for the appointment of an Assistant Secretary-General while the second formally established the emoluments of the Assistant Secretary-General.

Decision No. 14: Establishment of the Budget for 1961-1962.

Taken at the 18th Meeting of the Council on 20th June 1960 in accordance with the provisions of sub-paragraph (c) *of Article 34 of the Convention.*

The Council approved the estimates for the financial year 1961-1962 and established the Budget for that year.

Decision No. 15: Determination of the Contributions for 1961-1962.

Taken at the 18th Meeting of the Council on 20th June 1960 in accordance with the provisions of sub-paragraph (c) *of Article 34 of the Convention.*

In the light of Decision No. 14 of 1960, the Council determined the actual amounts each Member State should contribute to the Budget in 1961-1962 as established by Decision No. 14 of 1961.

Decision No. 16: Amendment of the Financial Regulations.

Taken at the 18th Meeting of the Council on 20th June 1961 in accordance with the provisions of Article 34 of the Convention.

The Council decided that the appropriations should remain available for two months after the end of the financial year to which they relate, and that the annual statement of accounts should be submitted to the Council not later than three months after the close of the financial year.

TRENDS IN EFTA'S FOREIGN TRADE

(Continued from page 13)

still falling. Denmark and Norway have increased, in particular, their foreign purchases of fuels, chemicals and machinery. In Sweden, last year's considerable purchases of stocks have been reflected in the figures for imports of foodstuffs, fuels, raw materials and motor cars : i.e., the imports of these commodities are somewhat lower than in 1960. Imports of machinery, on the other hand, have continued to rise. Portugal reports large increases in imports of paper, chemicals and transport equipment, but a decrease in respect of minerals. In Switzerland, the rise in imports is most evident in respect of manufactured goods, which now amount to 56% of total imports. However, the increase in imports of raw materials is also considerable.

In Britain, the relatively large fall in imports of foodstuffs, beverages and tobacco has been partly offset by increases in the sectors of fuels and finished goods. Imports of industrial materials have remained about the same.

Switzerland and Portugal have increased their imports by more than 28%. Denmark and Sweden reported slight decreases in imports. With regard to Switzerland, however, it must be noted that the large purchases towards the end of 1959 (when it was already known that a new customs tariff would shortly be put into effect) have resulted in extremely low imports during the first quarter of 1960. This affects the basis of calculation of the rate of growth during the first quarter of 1961.

Changes in Exports

During the same period, total EFTA exports amounted to 4,784.2 million U.S. dollars, i.e., about 4% more than in the previous year. Switzerland, with +12%, achieved the highest increase.

As in the case of imports, the proportion of manufactured goods in Austria's exports has shown a further rise : it amounts already to 47% of her total exports. In Denmark, the rising trend in industrial exports, which has been noticeable for a considerable time, has continued. Norway achieved larger increases in exports of paper and paper goods, chemicals and non-ferrous metals; it showed, however, decreases in the exports of fish, paper pulp, iron and steel. In Portugal, a recovery took place in exports of wine and fish preserves, which had fallen off in the previous year, while exports of textiles and pulp continued to expand. Swedish exports of cellulose, paper, iron and steel, as well as machinery, continued to rise; but sales of ships and motor cars fell off considerably. The decline in sales of motor cars must be attributed to the reduced sales in America. In Switzerland, the increase relates in the main to supplies of finished goods, which comprise nine-tenths of the total value of exports. This growth is most marked in the metal industries, especially in machinery. The watch industry and the chemical industry expanded their exports considerably. A wide range of products contributed to the increase in British exports. The main exceptions are motor cars, ships and fuels, exports of which were at a lower level than in the corresponding period of the previous year. Textile exports have remained unchanged; sales of lorries, aircraft, chemicals and, in particular, of machinery have grown, and in some cases considerably.

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EFTA'S First Annual Report

THE First Annual Report of the European Free Trade Association, which has been prepared by the Secretariat in consultation with the Permanent Delegations of the Member States, is being published in mid-July.

In the Introduction to the Report developments in Europe leading to the establishment of EFTA and discussions of the European trade problem are reviewed. The organisation of EFTA and experience of its operation in the period to 30th June 1961 is the subject of Part I of the Report. Part II contains an analysis of the expansion which has taken place in the EFTA market and a review of EFTA's trade. An appendix deals with amendments to the trade rules of the Convention.

Table 1

EFTA TRADE IN 1st QUARTER, 1961

(million U.S. dollars)

Area of origin or designation	Austria	Denmark	Norway	Portugal	Sweden	Switzer-land	United Kingdom	EFTA
IMPORTS from								
World	378.8	464.2	385.9	126.9	722.1	643.4	3,236.7	5,958.0
EFTA	45.5	144.0	158.0	28.3	186.1	75.0	340.3	977.2
E.E.C.	217.0	182.9	128.0	44.3	284.2	391.4	473.1	1,720.9
U.S.A.	29.2	39.5	28.0	8.7	84.9	76.3	370.5	637.1
EXPORTS to								
World	278.1	361.6	231.2	71.3	631.5	476.3	2,734.2	4,784.2
EFTA	40.5	147.4	99.7	16.6	235.0	81.9	300.1	921.2
E.E.C.	142.0	106.0	59.5	14.0	202.6	197.3	454.5	1,175.9
U.S.A.	9.6	26.6	15.0	7.6	29.9	38.3	186.8	313.8

Table 2

PERCENTAGE CHANGES IN INTRA-EFTA TRADE

(1st quarter, 1961 compared with 1st quarter, 1960)

	Exports	Imports
Austria	+21.3%	+2.7%
Denmark	+1.2%	-5.3%
Norway (inc. ships)	+8.6%	+8.6%
Portugal	+36.1%	+46.6%
Sweden	+14.0%	+6.5%
Switzerland	+19.2%	+23.4%
United Kingdom	+3.2%	+10.0%
EFTA	+8.6%	+9.7%

Table 3

PERCENTAGE CHANGES IN EFTA'S WORLD TRADE

(1st quarter, 1961 compared with 1st quarter, 1960)

	Exports	Imports
Austria	+8.0%	+14.3%
Denmark	+2.5%	—0.7%
Norway (inc. ships)	+2.6%	+8.2%
Portugal	+9.7%	+28.2%
Sweden	+3.8%	—1.6%
Switzerland	+11.9%	+29.3%
United Kingdom	+2.2%	+2.8%
EFTA	+3.8%	+5.7%

TRENDS IN EFTA'S FOREIGN TRADE

(Continued from page 14)

EFTA Trade Balances

The figures of exports and imports in the trade balance of the EFTA countries combined indicate a deficit of 1,173.8 million U.S. dollars in all. As compared with the corresponding period of the previous year, this corresponds to a slight deterioration of 148.6 million U.S. dollars, which in the main is due to the marked increase in the deficit in the Swiss balance of accounts; nevertheless, all member States of EFTA have their share in this result. In view of the large role which Great Britain plays within the total foreign trade of EFTA, the deficit in the British balance of trade—amounting to over 500 million U.S. dollars—is responsible for a large part of the EFTA deficit. The debit balances of the other countries are, however, also relatively high. With the exception of Portugal and Sweden, all the member States have a deficit of 100 million U.S. dollars or more. In the case of Switzerland, the first quarter of 1961 shows the highest quarterly import surplus ever reached since trade statistics began to be kept in 1885.

Table 4

EFTA'S BALANCE OF TRADE IN THE FIRST QUARTERS OF 1960 AND 1961

(million U.S. dollars)

	1st quarter 1960	1st quarter 1961
Austria	—74.0	—100.7
Denmark	—114.5	—102.6
Norway (inc. ships)	—131.2	—154.7
Portugal	—34.0	—55.6
Sweden	—125.5	—90.6
Switzerland	—71.9	—167.1
United Kingdom	—474.1	—502.5
EFTA	—1,025.2	—1,173.8

EUROPEAN FREE TRADE ASSOCIATION

Published by the Information Department, European Free Trade Association, *Geneva, Switzerland.*
Printed by Imprimerie H. Studer S. A., Geneva, for the European Free Trade Association.